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SUBJECT: TAJIKISTAN - SCENESETTER FOR JUNE 16-19 VISIT OF
DAS GEORGE KROL

Classified By: Ambassador Tracey Jacobson; reason 1.4 (b) and (d).

¶1. (U) Embassy Dushanbe looks forward to the upcoming visit of DAS George Krol. Following is a brief overview of the current situation in Tajikistan and our thoughts on the key issues DAS Krol will confront during his visit.

Political Overview - Cracks in the Facade

¶2. (C) Political development in Tajikistan is marked by leadership stagnation, and growing discontent among the general populace. Rahmon continues efforts to consolidate his hold over the Government by ensuring that individuals from his home district hold most of the top ministerial, law enforcement, diplomatic, and revenue-related positions. Since the President's re-election in November 2006, most members of the opposition have been removed from positions of authority, reneging on one of the key provisions ending the civil war. Rahmon and his appointees continue to argue that stability is paramount, and that reform is a slow process. They view democratic reforms as destabilizing. Government officials are committed to protecting their personal financial and political interests.

¶3. (C) The leadership faces long-term challenges. Tajikistanis under the age of 18 (over half the population) are more religious than older generations, and their views are less swayed by the civil war experience. Although religious extremism is not currently a major threat, worsening economic conditions and government restrictions on religious practices are alienating some of the country's young people, and threaten long-term stability.

¶4. (C) Cracks are beginning to show in the Government's facade of control. In February a senior national-level police officer was killed in Garm while trying to arrest a local police official there. The local officer remains in his position, charged with no crime, and non-uniformed armed men, apparently his supporters, maintain a strong street presence in Garm. In early May reports circulated that the President's son Rustam shot his uncle, Presidential brother-in-law (and banker) Hassan Asadullozoda, in a dispute over control of businesses. While Hassan has since been seen alive, there has been no official word on what happened, Rustam has disappeared from public view, and rumors continue to swirl in the Tajikistani media. In Kulyob in late May security forces attempting to arrest an alleged drug smuggling ringleader, found themselves in an hours-long firefight in the center of the city. Three people were killed, the ringleader was eventually captured, and reports circulated that this was another effort to weaken a rival

faction to the President's.

A Skewed Economy

15. (C) The Government relies heavily on revenue from aluminum producer Tajik Aluminum Company (Talco). State-owned and non-transparent, Talco also serves as the President's cash cow; analyses in international press of production versus revenues suggest that a large part of Talco's revenue is diverted to ends unknown. Talco in turn survives on below-market price electricity from state-owned Barki Tojik. Barki Tojik does not get enough revenue to keep its infrastructure from deteriorating and failing. Talco has also been at the center of one of the most expensive legal cases in UK history; Tajikistan has reportedly some \$120-150 million on legal fees in UK courts over the past three years to pursue claims against the previous management. This equals about five percent of Tajikistan's 2005 GDP, and the case goes on. Talco favorably settled a \$30 million claim from U.S. company Gerald Metals in 2007.

16. (C) The agricultural sector is dominated by cotton production. Due to government manipulation, cotton growing in Tajikistan is not currently commercially viable, and is kept artificially alive to the benefit of a few politically-connected investors. With government-backed loans to local banks, the local banks have re-loaned money to farmers for cotton inputs, used local officials to coerce farmers to plant cotton, paid them below market rates for cotton crops, and then kept the profits generated by this unfair, semi-feudal system. Farmers go further into debt,

and agricultural modernization lags. USAID agricultural and land reform programs are designed to offer Tajik farmers viable alternative livelihoods in rural areas.

17. (C) Government officials have failed to implement an effective or coherent macroeconomic policy. Inflation in 2007 reached 18%, and prices for basic foodstuffs increased 50-100%. With few legitimate business opportunities in Tajikistan, and deteriorating education and other public services, much of the population relies on remittances from Tajikistanis working abroad. Anecdotal evidence suggests that the percentage of Tajikistanis who move abroad to seek permanent or temporary work) as much as 40 percent of the working population) is increasing. Tajikistani social indicators are going down, health care and educational systems are degenerating, and young Tajikistanis are arguably more poorly prepared for life than those who grew up under the Soviet Union. The business climate is not improving, and local and foreign observers have remarked to us that members of the President's family have reached surprisingly far down into the economy, to the level of grocery stores, to grasp a share of business revenues.

18. (C) Government spending priorities show a lack of concern for the common welfare. The Government continues to spend tens of millions of dollars on massive presidential palaces and dachas (funded by state-owned enterprises rather than governmental budget resources), and insists it will be able to spend \$100m per year to build the Rogun hydroelectric dam.

In May, the Mayor of Dushanbe called on all businesses in the capital to surrender a month's salary of every employee to contribute to Rogun. The potential size of this confiscation would be \$10 million, paltry in comparison to the project's needs, and the Mayor seems to have backed down after angry public and private reactions. A functionary of the President's political party also suggested that thousands of party youth could be organized to provide free labor for the Rogun project. Both proposals show the tin ear of members of the political/economic elite, and their Soviet style willingness to blithely sacrifice common people for the sake of "national prestige."

19. (C) Another worrisome trend we must deal with is the Government's declining competence. The result of corruption,

nepotism, general mismanagement, brain drain to other countries and declining educational standards, Tajikistan's government has fewer specialists at middle and senior levels, and a decreasing capacity to carry out even basic functions of coordination.

Food Crisis Will Worsen

¶10. (C) Over the past winter much of rural Tajikistan has faced a growing food shortage, as the unusually harsh winter and resulting damage to crops and harvests, combined with mounting debts and rapidly increasing food prices, has forced rural families to sell tools and livestock to survive. Unusually severe winter weather, combined with government hesitation on settling a new land-ownership law, delayed sowing of the next cotton crop, while long-standing policy prevented the planting of other crops. The result is that Tajikistan next year will face a greatly reduced cotton crop, resulting loss in farm incomes, and likely more severe economic disruptions in rural areas and the banking sector. Economic disruptions in rural areas and the banking sector. Inputs and credit for other crops are limited, so the next agricultural season looks bleak for Tajikistan. Tajikistan is highly dependent on imports for its food supply and is vulnerable to the ongoing worldwide food price increases. We expect food shortages to worsen. This is a very bad time for Food for Peace to stop functioning in Tajikistan. As the program ends, and the NGO network running it dismantles, we will lose not only the significant developmental impact, but also the infrastructure for distributing emergency humanitarian assistance.

Business Climate

¶11. (C) Most international investors do not view Tajikistan as a viable place to do business. American energy company AES closed its Tajikistan office in January, because of lack of progress on regional energy integration plans. The owner of an EBRD-financed supermarket chain, Orima, recently

received an eight-and-a-half year prison sentence and confiscation of assets, in what most believe was a move by someone close to the President to seize his business. Other would-be investors, large and small, find themselves stymied by corruption at all levels. What foreign investment there is, is state-sponsored or directed largely from Iran, China, and Russia. Entities such as the Committee on Investments and State Property are ineffective, and the Agency to Fight Corruption and Economic Crimes appears to be merely a tool to attack business rivals of government leaders. A local AmCham and the Washington-based U.S. Tajik Business Council have just opened and may serve to advocate for improved business practices; but their memberships are extremely limited.

Areas of Cooperation

¶12. (C) Bridge: Use of the Tajikistan-Afghanistan bridge at Nizhny Pyanj is growing. About 200 trucks a day now cross the bridge going north. Obstacles to full use of the bridge remain; there are still no provisions for pedestrian traffic, and it remains difficult for Afghans to obtain a Tajikistani visa, both because of bureaucratic delays and demands for bribes from Tajikistani consular officials. The inspection facilities at the Tajikistan end of the bridge are almost complete, but the Government still has not decided whether the Customs Agency or the Border Guards will control the site. U.S. Customs advisors plan to spend time mentoring Tajikistani counterparts at the bridge later this year.

¶13. (C) Narcotics: Cooperation on narcotics continues to be a relative bright spot. Unfortunately however, while Tajikistan's law enforcement and security services seize more narcotics than other central Asian states, they are not willing to take on the arrest and prosecution of narcotics smuggling ring leaders, some of whom are politically

well-connected. An example of this unwillingness, late last year when the Interior Ministry General in charge of counternarcotics tried to prosecute a State Security officer (and distant relative of the President) for smuggling heroin in an official car, the General himself was instead unceremoniously fired.

¶14. (C) Security Cooperation: Security Cooperation remains a strong part of our relationship, as we pursue shared interests in building stability in Afghanistan. The Tajikistani Ministry of Defense is opening up to cooperation with Afghanistan. The Tajikistani Military Institute intends to begin training 30 officers from Afghanistan in September ¶2008. This seems to be a sincere effort to assist in the process of building stability in Afghanistan, and stands in sharp contrast to Tajikistan's Border Guards' refusal to allow joint training with Afghan counterparts. Tajikistan has also accepted the Global Peacekeeping Operations Initiative, funded at \$1.5 million, with additional follow-on funding of another million, and formed an interagency commission to explore the standup of a peace keeping unit. The Commission will meet with U.S. DoD representatives in late June to formulate next steps.

¶15. (C) Regional Integration: Efforts to spark regional integration between Tajikistan and Afghanistan, and more broadly between Central and South Asia, have seen some successes; but progress is slow. Trade across the U.S.-built bridge has expanded. Tajikistan will soon sign a commercial Qbridge has expanded. Tajikistan will soon sign a commercial power purchase agreement with Afghanistan, which will pave the way for sales of seasonal hydroelectricity to the Afghan grid starting in spring 2010. Tajikistan's relations with Uzbekistan are generally poor. Distrust between the two countries is based in part of the presidents' personalities and on more substantive regional issues such as management of water resources. Tajikistan will host the Shanghai Cooperation Summit meeting in August. After months of confrontation with the OSCE over extension of its mandate in Tajikistan, the government has approved a revised mandate that allows for programming in all three dimensions, including human rights and democracy work. The new mandate will be considered for approval later this month in Vienna. The U.S. mission will support it and we expect the mandate will receive approval.

Key Issues for Your Visit: The IMF, Business Climate

¶16. (C) IMF/Assistance: In the wake of the misreporting scandal with the IMF, in which the Central Bank obtained new loans and debt relief under false pretenses, relations with international financial institutions have reached a new low. The Government, seeking another IMF bailout, has agreed to an audit of the Central Bank. However, the Tajikistan Central Bank Chairman has told us the bank does not have the funds to pay back \$47 million it owes to the IMF in September as part of its settlement of the incident, calling into question Tajikistan's long term credit-worthiness.

¶17. (C) The cotton sector was at the center of the misreporting incident, for the Central Bank guaranteed loans from foreign banks to cotton sector investors - and hid those guarantees from the IMF in order to qualify for debt relief. The Central Bank Chairman who organized the misreporting, Murodali Alimardon, is now Deputy Prime Minister for Agriculture (a sector in which he is a major investor), and reportedly continues to coerce farmers to plant cotton, and banks to loan money to farmers only for cotton, despite the President's declarations of "freedom to farm." A banking crisis is looming; the Government has reportedly given banks money which they must loan to cotton farmers - but the banks expect up to 90% of these loans to go bad. Alimardon has also suggested to donors that the freedom to farm decree be suspended in areas where members of the President's family and other politically connected persons are major cotton investors. Donors roundly rejected this idea.

¶18. (C) Alimardon's transfer to Deputy Prime Minister and ongoing lavish spending on prestige projects have produced a sense of fatigue among donors, many of whom are now more cautious in responding to government requests for large amounts of aid. The President's chief economic adviser, in turn, has repeatedly expressed anger at what he perceives as our "failure" to support Tajikistan in the IMF, and our criticism of the business climate. You will receive repeated pleas for more investment and financial assistance. Our response to these pleas has been to tell the Tajikistanis that investment is a business decision, and that private investors need to see a friendlier government, less corruption, and fewer administrative barriers before they will come to Tajikistan.

¶19. (C) Withdrawal of National Democratic Institute (NDI): NDI's last application for registration was refused on March 18. NDI is now wrapping up its affairs here, paying off local staff, and leaving Tajikistan. The official reasons for the denials of registration were specious, including rejection of documents the Government had previously accepted. The State Committee for National Security opposed NDI's presence in Tajikistan, and State Committee officers told NDI staff that, as with Freedom House, "nothing will happen to Tajikistan" if NDI were forced to leave. They also harassed NDI's American resident representative, and threatened NDI local staff. NDI Chairman Madeleine Albright sent a letter to President Rahmon urging registration on March 12, which has gone unanswered. We have told the Tajikistani government that their rejection of NDI has damaged Tajikistan's reputation in Washington and elsewhere, but have seen no sign of any change in their views. The Qbut have seen no sign of any change in their views. The Foreign Minister apologized to the Ambassador for the decision, noting that there is "misunderstanding" about NDI's role in some government quarters, where officials are "not yet ready for it."

Comment: Entitlement, Stagnation, and Looming Crisis

¶20. (C) Three themes arise frequently in our discussions with Tajikistani officials and with other international missions here. First, that many Tajikistani officials consider security issues to be the "real relationship" between Tajikistan and the United States, and that human rights and economic reform are window dressing. We have found this viewpoint prevalent in much of the Tajikistani government below the top levels, and it helps explain why NDI could not get registered and businesses and investors face many obstacles and much interference once established. It is difficult but not impossible to push for a balanced agenda. A recent example of success is the newly approved OSCE mandate. The Tajikistani government had pressed for a watered-down mandate (long on investment, short on the political/human dimension) and more operational control,

threatening to eject the organization if it didn't get its way. Tough, coordinated diplomacy from U.S. and European representatives, however, turned the tide.

¶21. (C) The second recurrent theme is that the Government believes foreigners should come invest here, but with no strings attached, i.e. that well-connected Tajikistanis should continue to control all businesses in the interest of narrowly-defined personal gain. Even President Rahmon has begun to espouse this point of view, recently telling a visitor from the Brookings Institute that he didn't want foreigners to gain control of businesses in Tajikistan. The representative of the Aga Khan foundation summed up the problem nicely; "The President prefers to control 90 percent of a \$100 pie, rather than loosen his control and have only 20 percent of a \$1000 pie." In short, what is most important to President Rahmon is his strength relative to potential rivals in Tajikistan, rather than the overall strength of the country.

¶22. (C) The third theme you will hear about is, as the Indian Ambassador put it, the "sense of entitlement" among senior government officials to endless bailouts by foreigners, because Tajikistan has, since its creation in the 1920s, been a subsidized semi-colonial state, in which an unaccountable local elite does as it pleases, supported by foreigners simply to keep control in an unstable border region. This sense of entitlement, combined with the Soviet legacy of central planning, helps explain the strong belief among top ranking Tajikistani government officials that private investment is a strategic political matter, not a business decision; hence their repeated arguments to us that investment and trade are matters of national prestige and strategic competition among the west, Russia, and China. Getting Tajikistan's leaders to understand our interests in seeing Tajikistan diversify politically and economically, for the stability and prosperity of the region, is a difficult and slow process. To succeed we would welcome an expansion of our engagement. End Comment.
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